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HOUSING MARKET INSIGHT
London CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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"Demand from GTA buyers peaked in 2017-Q1 with buyers purchasing expensive homes in highly-priced areas in London CMA. Further, the level of repeat sales also heightened during 2017, with people realizing large profits after buying and selling properties in under a year. These two factors contributed to a record level of sales and significant price growth in 2017."

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London's Heated Resale Housing Market: The Effects of GTA Buyers and Repeat Sales

Highlights

- As a greater level of demand spilt over from the GTA to London CMA in 2017-Q1, especially for homes in the higher price categories, GTA buyers accounted for 9% of all transactions and 20% of transactions for homes priced over $450,000 (see Figure 1, Figure 3 and Table 1). This was a substantial increase from the general trend, as GTA buyers only accounted for 3% of transactions between 2015 and 2016.
- Purchase activity by GTA buyers was concentrated in the City of London, especially in North and South London, and was quite limited in other areas within London CMA.
- Overall, the strong GTA demand and higher propensity to purchase expensive homes by GTA buyers contributed to a record level of MLS® sales and rapid price acceleration.
- A strong level repeat sales was also a contributing factor to strong sales activity during 2017 as many homes were purchased for a low price in less expensive areas during 2016 and sold for large gross profits (average of 22% or equivalently $49,000) in under a year.

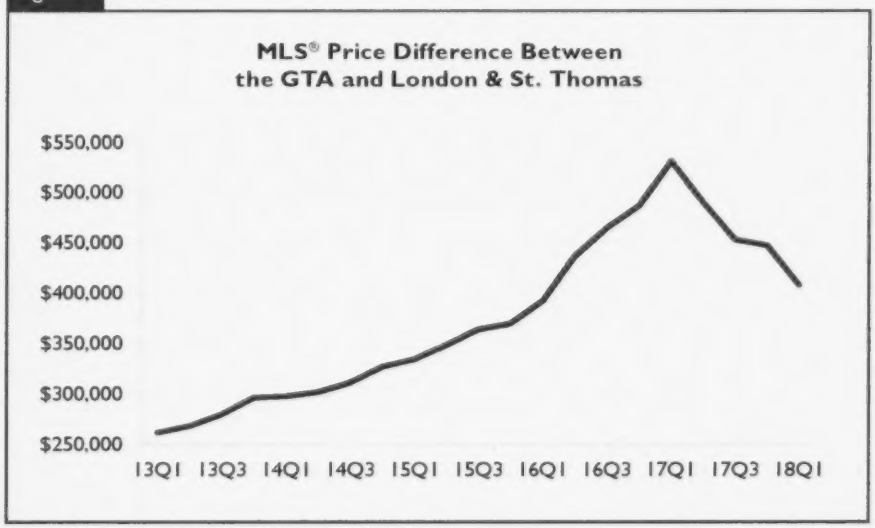
While the London census metropolitan area (CMA) MLS®[1] average price increased moderately throughout 2016 and grew rapidly in the first half of 2017, the Greater Toronto Area (GTA) MLS® average price growth was much stronger during the same period. As homes in London CMA were relatively more affordable when price growth in the GTA peaked, local stakeholders suggested that GTA household demand for single-detached homes spilt over into the London CMA market.

By examining transactional data from the London and St. Thomas Association of Realtors (LSTAR), this report addresses the following two questions:

- How has GTA demand influenced London's resale market?
- Did a high level of repeat sales contribute to the strong sales activity in London during 2017?

As homebuyers from the GTA (GTA buyers)[2] increasingly purchased highly-priced single-detached homes in London CMA, these buyers significantly contributed to the record level of MLS® sales and rapid price growth during the first half of 2017. Moreover, as sales activity and price growth heightened, repeat sales in London's resale market was more pronounced as a higher proportion of homes were being purchased and sold in less than a year.

Figure 1



Source: CREA, CMHC calculations.

GTA Buyers Purchased a Large Volume of Expensive Homes in the High-End Areas of London CMA with Demand Peaking in 2017Q1

The transactional data used in this report did not provide information on where the buyer was from. However, the data did provide information on where the buyer's realtor was based, which was used as a proxy for whether the buyer was from the GTA or not. Therefore, when we refer to buyers from within the GTA, we are strictly referring to the census subdivision (CSD) within the GTA that the buyer's realtor was based out

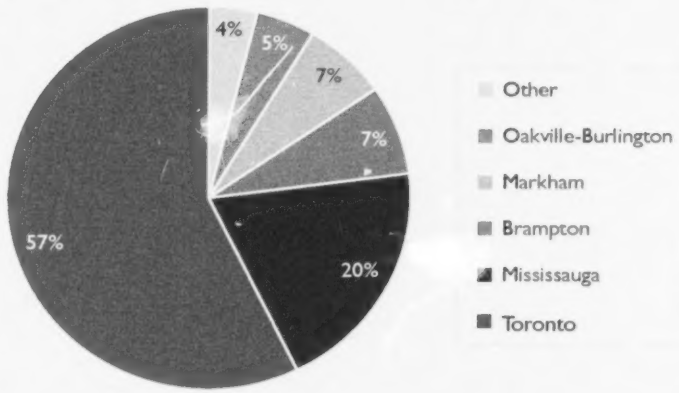
Table 1
Percent of Total MLS® Sales in London CMA by Buyer

	Local	GTA Overall	Toronto	Mississauga	Brampton	Markham	Oakville-Burlington	Other
2015Q1	98.1	1.9	0.7	0.7	*	*	0.2	*
2015Q2	97.8	2.2	1.3	0.3	*	0.4	*	*
2015Q3	97.9	2.1	1.2	0.3	*	0.2	0.2	0.2
2015Q4	97.0	3.0	1.3	0.5	0.6	0.2	0.3	*
2016Q1	97.6	2.4	1.2	0.4	0.2	0.4	*	*
2016Q2	97.0	3.0	1.5	0.6	0.3	0.2	0.2	*
2016Q3	97.1	2.9	1.3	0.8	0.2	0.3	0.2	*
2016Q4	95.7	4.3	2.3	1.1	0.2	0.4	0.2	*
2017Q1	90.6	9.4	6.0	1.6	0.7	0.3	0.3	0.4
2017Q2	93.2	6.8	4.5	1.3	0.4	0.2	0.3	*
2017Q3	94.8	5.2	2.9	1.0	0.5	0.3	0.2	0.2
Total	**95.9**	**4.1**	**2.4**	**0.8**	**0.3**	**0.3**	**0.2**	**0.2**

Source: London and St. Thomas Association of Realtors, CMHC calculations.
*Any figure representing less than 0.2% of MLS® sales is suppressed due to confidentiality.

Figure 2

Share of GTA MLS® Purchases in London CMA by Buyer's Census Subdivision from 2015Q1 to 2017Q3



Source: London and St. Thomas Association of Realtors, CMHC calculations.

Table 2
Share of MLS® Sales in London CMA to GTA Buyers by Region from 2015Q1 to 2017Q3

Region in London CMA	Percent of MLS® Purchases by GTA Buyers
London CMA	4.1
City of London	4.9
North London	6.2
South London	3.9
East London	4.6
Rest of London CMA	1.9

Source: London and St. Thomas Association of Realtors, CMHC calculations.

of.[3] Moreover, any buyer of a home in London CMA that was not from the GTA is categorized as a local buyer.[4]

After adjusting for seasonality, London and St. Thomas MLS® sales during 2017-Q1 were at the highest level ever recorded. At the same time, demand for homes in the GTA peaked and the gap between the average residential resale price in the GTA and London CMA reached its widest point (Figure 1). Consistent with the idea that increasing demand and home prices in the GTA motivated buyers to purchase homes outside of the GTA, we find that the proportion of London's resale homes sold to GTA buyers reached its highest point in 2017-Q1. This spillover demand significantly contributed to the rapid price growth during that quarter. Once the Ontario Fair Housing Plan was implemented in April 2017, demand for homes in the GTA declined and the price gap between the two markets diminished, leading to lower demand from GTA buyers (Figure 1 and Table 1).

From 2015-Q1 to 2016-Q3, demand from GTA buyers was low and constant. Although demand was still stronger for homes in the higher price brackets, GTA buyers represented a small share of total MLS® transactions in London CMA. Demand from GTA buyers

Table 3
Percent of MLS® Sales to GTA Buyers Categorized by Price Bracket and Region from 2015Q1 to 2017Q3

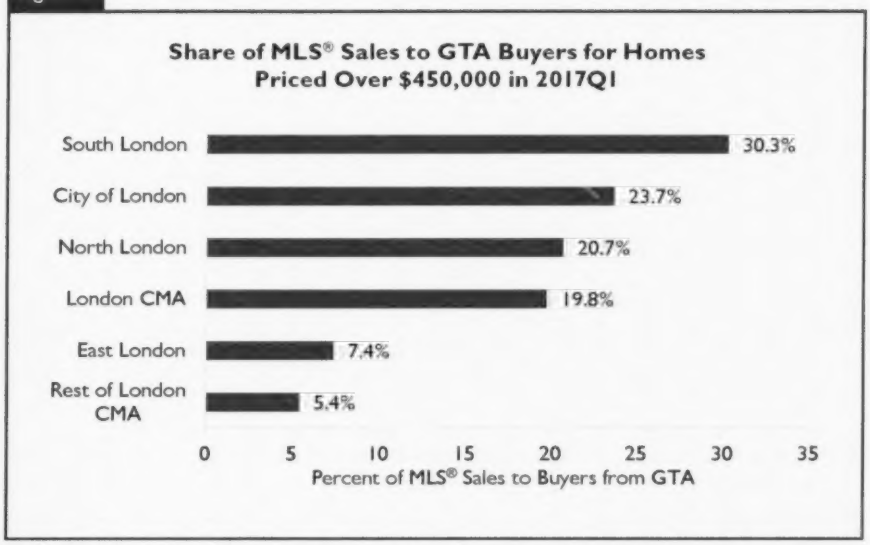
	London CMA	City of London	North London	South London	East London	Rest of London CMA
Less than $150,000	2.1	2.5	3.0	1.3	3.5	1.0
$150,000-$249,000	2.2	2.7	2.6	2.3	3.1	1.1
$250,000-$349,000	4.7	5.5	5.9	4.0	7.5	2.5
$350,000-$450,000	5.8	6.8	8.0	4.4	9.0	2.5
$450,000 and over	8.0	9.1	8.9	10.1	6.0	4.1

Source: London and St. Thomas Association of Realtors, CMHC calculations.

began rising toward the end of 2016, especially for homes in the $350,000 and over price range. As a greater level of demand spilt over from the GTA to London CMA in 2017-Q1, especially for homes in the higher price categories, GTA buyers accounted for 9% of all transactions and 20% of transactions for homes priced over $450,000 (Table 1 and Figure 3).

Across buyers from the GTA, demand was strongest from the City of Toronto and Mississauga, modest from Brampton and Markham, and weakest from Oakville-Burlington and Other[5] (Table 1 and Figure 2). With the exception of Markham[6] and Other, the ranking of demand is in line with the population of these census subdivisions (CSDs). Overall, moderate differences in price growth and the sales-to-new listings ratio between the GTA CSDs served as poor indicators of purchasing activity in London CMA by these buyers.

Figure 3



Source: London and St. Thomas Association of Realtors, CMHC calculations.

Table 4
Average MLS® Sale Price in London CMA by Buyer

	GTA Buyer	Local Buyer	Percent Difference
2015Q1	$305,346	$251,472	21.4
2015Q2	$301,497	$271,374	11.1
2015Q3	$290,339	$263,315	10.3
2015Q4	$296,061	$257,840	14.8
2016Q1	$312,583	$270,816	15.4
2016Q2	$285,552	$282,019	1.3
2016Q3	$331,050	$279,981	18.2
2016Q4	$328,473	$277,258	18.5
2017Q1	$414,484	$311,300	33.1
2017Q2	$408,445	$338,954	20.5
2017Q3	$359,987	$320,244	12.4
Total	**$358,673**	**$287,980**	**24.5**

Source: London and St. Thomas Association of Realtors, CMHC calculations.

Purchase activity by GTA buyers was concentrated in the City of London and was quite limited in other areas within London CMA including St. Thomas, Middlesex Centre and Strathroy-Caradoc (Tables 2 and 3). In particular, areas within London CMA but outside the City of London only represented 13% of all purchases by GTA buyers while representing 27% of transactions by local buyers. GTA buyers' preference for the City of London was driven by their ability to purchase more expensive homes. Accordingly, demand from GTA buyers was strongest in North London – the most expensive area in the City of London – especially for homes priced over $450,000 (Table 3). Demand was also strong in South London for homes in the same price bracket. In fact, during 2017-Q1, GTA buyers purchased 30% of all homes priced over $450,000 in South London (Figure 3). GTA buyers purchased less homes in East London and demand was centred on relatively lower priced homes than in North and South London.

Over the sample period, GTA buyers purchased homes that were 25% more expensive than local buyers, as GTA buyers paid an average of $358,673 and local buyers paid an average of $287,980 for homes in London CMA (Table 4). In fact, GTA buyers purchased significantly more expensive homes than local buyers in every region within the CMA

including areas with elevated home prices such as North and South London (Table 5). For example, over the sample period, the average price difference between homes purchased by GTA buyers and local buyers in South London was 34% (Table 5). Although it is evident that GTA buyers had a higher propensity to purchase more expensive homes, we were unable to quantify whether GTA buyers offered above asking price or whether they offered more money for the same property than local buyers. Overall, the strong GTA demand and higher tendency to purchase expensive homes by GTA buyers contributed to rapid price acceleration resulting in a level of price growth in 2017 that has not been seen since 1986.[7]

Repeat Sales Heightened During 2017 and People Realized Large Gross Profits after Buying and Quickly Selling Low-End Properties in the City of London

A repeat sale is defined as the purchase and sale of the same property in under a year. Within London CMA, 95% of the repeat sales were by initial local buyers and 5% were by initial GTA buyers.[8] Across individuals from the GTA who bought and quickly sold homes in London CMA, a majority of them were from the City of Toronto and some from Mississauga – a very few number of repeat sales occurred by initial buyers from other areas within the GTA. A majority of the initial purchases occur during the first half of the sample period (2015Q1 to 2016Q2), and a majority of the subsequent sales of the same properties take place during the second half of the sample period (2016Q3 to 2017Q3). Overall, a total of 532 repeat sales were identified – representing just over 4% of all MLS® transactions from 2015-Q1 to 2017-Q3 (Table 6).[9]

While MLS® sales in East London were the lowest in London CMA, East London was the area that demonstrated the most repeat sale activity within the CMA.[10] As home prices in East London were the lowest in the city, people were able to buy properties at a lower price point, often renovate them, and sell them for a profit in under a year (Table 7). Conversely, while sales activity in North London was amongst the strongest in London CMA, the area had the lowest number of repeat sales within the CMA. This suggests that the elevated home prices in North London discouraged individuals looking to buy and quickly sell from purchasing homes there, as there was less room for further price growth or a lower need for renovations. Repeat sales were more pronounced in South London and in areas outside

Table 5
Average MLS® Sale Price in London CMA by Buyer and Region from 2015Q1 to 2017Q3

Region in London CMA	GTA Buyer	Local Buyer	Percent Difference
London CMA	$358,673	$287,980	24.5
City of London	$359,746	$292,628	22.9
North London	$401,106	$353,947	13.3
South London	$387,539	$289,834	33.7
East London	$260,203	$225,037	15.6
Rest of London CMA	$351,241	$275,560	27.5

Source: London and St. Thomas Association of Realtors, CMHC calculations.

Table 6
Repeat Sale Gains from 2015Q1 to 2017Q3 in London CMA by Buyer

	Average Initial Purchase Price of Repeat Sale	Average Subsequent Sale Price of Repeat Sale	% Gain	$ Gain	Number of Repeat Sales
GTA	$313,900	$346,242	10.3	32,342	26
Local	$219,264	$268,774	22.6	49,510	506
Total	$223,533	$272,560	21.9	49,027	532

Source: London and St. Thomas Association of Realtors, CMHC calculations.

of the City of London, as home prices were relatively lower than North London.

Repeat sales in London were a product of rapidly rising prices and served as a contributing factor to strong sales activity during 2017, as many homes were purchased for a low price during 2016 and sold for large gross profits in under a year. Across London CMA, the average initial purchase price of a repeat sale was $223,533 and the subsequent average sale price of a repeat sale was $272,560 – generating an average gross profit of 22% or equivalently $49,000. Locals involved in buying and quickly selling earned a significantly higher gross return for repeat sales than initial buyers from the GTA because GTA purchasing activity ramped up toward the end of 2016, when prices were already high (Table 6). The repeat sellers that realized the largest proportional gains were those who bought and quickly sold properties in East London, while those who bought and quickly sold in North London realized the lowest proportional gains (Table 7).

Concluding Remarks

Overall, strong GTA demand contributed to rapid price appreciation and the combination of GTA buyers and repeat sales by locals in late-2016 and early to mid-2017 led to record level MLS® sales in London CMA during 2017. Strong purchasing activity in North and South London by GTA buyers who generally purchased highly-priced homes led to price acceleration in London's more affluent neighbourhoods, while an elevated number of repeat sales in East London contributed to a higher volume of sales and price growth in an area that's historically known for having lower real estate demand. The recent surge of GTA buyers purchasing homes in the City of London and elevated migration from the GTA into London suggests that strong GTA demand may be displacing local demand – pushing local buyers outside of North and South London and into East London and other areas within the CMA.[11] Future research could study the displacement effects on locals due to a greater GTA buyer presence in the City of London.

Table 7
Repeat Sale Gains from 2015Q1 to 2017Q3 in London CMA by Region

Region	Average Purchase Price of Repeat Sale	Average Sale Price of Repeat Sale	% Gain	$ Gain	Number of Repeat Sales	Repeat Sales per 1,000 MLS® Sales
London CMA	$223,533	$272,560	21.9	49,027	532	21
City of London	$229,555	$282,738	23.2	53,183	412	22
North London	$312,727	$366,092	17.1	53,365	112	18
South London	$224,079	$277,617	23.9	53,538	135	19
East London	$177,835	$230,347	29.5	52,512	165	31
Rest of London CMA	$202,860	$237,618	17.1	34,757	120	18

Source: London and St. Thomas Association of Realtors, CMHC calculations.

ENDNOTES

[1] MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

[2] GTA buyer refers to buyers from the GTA purchasing homes in London CMA.

[3] As mentioned earlier, whether the buyer used a GTA realtor or not functions as a proxy for whether the buyer was from the GTA. The reasoning as to why this functions as a good proxy is as follows. First, it is very unlikely that a buyer who already resides in London would hire a realtor from the GTA to purchase a home in London. Second, it is likely that a buyer from the GTA is unfamiliar with realtors in London and will therefore use a realtor they are familiar with from the GTA. However, this proxy likely underestimates the number of buyers from the GTA, as there were likely a large number of buyers from the GTA who opted to use a local London realtor that would be more familiar with London's market. Accordingly, the proxy used in this report would be unable to identify those buyers as GTA buyers. Overall, this proxy functions as a good measure of the trend of buyers from the GTA. However, it is likely that the actual demand from GTA buyers in London was more pronounced than what this proxy indicates.

[4] A majority of the buyers were from within London CMA with the exception of buyers from the GTA. Therefore, any buyer that was not from the GTA is considered a local buyer. Accordingly, there is a slight possibility that a buyer is not from the GTA or London CMA, but is still considered a local buyer in this report. However, this represents a very small proportion of the transactions analyzed in this report.

[5] The 'Other' category of GTA buyers refers to all GTA buyers that are not from Brampton, Markham, Mississauga, Oakville-Burlington, and Toronto.

[6] The Markham MLS® average price during 2017-Q1 was the highest across CSDs in the GTA, providing the ability for Markham buyers to purchase multiple properties in London CMA or even downsize within the GTA and still purchase a single-detached home in London CMA. This may explain why demand from buyers in Markham was higher than other CSDs within the GTA that have higher populations.

[7] See CMHC's Housing Market Insight report, titled "GTA House Price Spillovers to Surrounding Centres" for a detailed analysis on rising home prices in the GTA leading to higher prices in surrounding markets.

[8] The data only spans from 2015-Q1 to 2017-Q3, while a majority of the purchases by GTA buyers occurred during 2017. Therefore, if buyers from the GTA were intending to buy and quickly sell, the dataset would have to extend to at least 2018-Q3 to be able to identify all possible repeat sales by GTA buyers.

[9] Redefining a repeat sale to the purchase and sale of the same property in under two years increases the number of repeat sales identified to 1,030 – amounting to 8% of all MLS® transactions over the same period.

[10] East London had the lowest level of MLS® sales from 2015Q1 to 2017Q3 relative to North London, South London and the sum of the areas outside the City of London.

[11] CANSIM Table 051-0065 provides migration statistics from the GTA to London CMA from 2011 to 2016.

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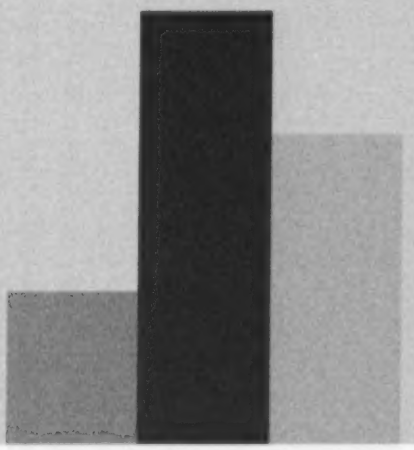

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